

adjustment between farm costs and farm prices. It also lessens the extent to which all values will fall. This is important. Debts are created against securities, the value of which is determined largely by the average level of prices and the long-term profits of enterprise. If prices fall rapidly and profits are destroyed, security values also fall; but they fall in greater proportion than the fall in prices, because their value is dependent upon the profit margin. This is quickly destroyed in a period of acute deflation. Hence the value of securities upon which debts have been arranged falls rapidly until profits are restored by rising prices. All individuals and all institutions dealing in these debts must then experience difficulties in maintaining a proper balance between assets and liabilities, unless they have available liquid reserves. Liabilities of financial institutions are expressed in fixed money terms, and they do not respond to a fall in prices. Hence a rapid fall, by destroying part of the current value of assets, is likely to embarrass such institutions. The lower the new price level the greater will be the embarrassment. This is one important reason why parity with the depreciated sterling is preferred to parity with gold.

69. Though exporters reap the benefit of higher prices in terms of depreciated sterling, the addition to price is paid to them by the rest of the community. At parity with gold, exports would realize £24 m. Parity with sterling places this value at £32 m. Who pays the additional £8 m.? Consideration of the value of exports, expressed in gold, and of the effect of exchange upon the New Zealand value of these exports supplies the answer. Out of £24 m. of exports, expressed in gold, New Zealand would have to meet about £9 m. of overseas interest in sterling values.* This would require only £6.75 m. of exports expressed in gold, leaving a margin of £2.25 m. of relief to the Budgets of State and local bodies compared with 1929. With exports at £24 m. and debt services at £6.75 m. the value of the amount available for imports would be £17.25 m. in terms of gold. When, however, parity with sterling is the basis of the currency, the debt services are £9 m., and the sterling value of exports £32 m. This leaves £23 m. for imports in terms of sterling. Hence imports cost £5.75 m. more at parity with the depreciated sterling than at parity with gold. In addition, the interest on the overseas debt is £2.25 m. more, making up the total of £8 m. This sum of £8 m. comes from the taxpayer and the consumer of imported goods in the first instance. It is well to bear this in mind. Both imports and the overseas debt service cost more in money on a depreciated sterling basis. This cost comes from the rest of the community, and is paid over to the exporters, who receive a higher price in sterling for their exports.

**Balance of
Payments.**

70. With regard to the debt service on the Budget, we have shown that on a gold basis only £6.75 m. would be required to meet the external debt service. Thus parity with gold would actually involve a saving to the Budget of this sum in terms of gold. Would this be a net saving to the budget? If a bonus of £2.25 m. accrues to the Budget on account of a restoration of gold parity, why should New Zealand not proceed independently to maintain her currency on a parity with gold? The answer is to be found in the effects that a return to parity with gold will have upon export prices, the money value of the national income, and the burden of the internal debt. First, we consider the internal debt. For public and local-body debt the total debt service is £18 m. Approximately half of this debt service is internal and the remainder external. The internal service is £9 m. in New Zealand currency, whether on a gold basis, parity with sterling, or a rate depreciated in terms of sterling. The external debt service is £9 m. in terms of sterling. It is less in gold values when sterling is depreciated in terms of gold. The real burden of the internal debt service depends upon changes in the internal price level. When prices fall the burden increases, and the greater the fall in the internal price level the heavier the burden. Thus at parity with sterling a fall in internal prices of over 40 per cent. on the 1929 level may be necessary to bring about an adjustment of conditions to the lower level of export prices. The real burden of the internal debt service is accordingly increased. Thus the interest on the internal debt would represent two-thirds more goods and services than it did at the higher price level in 1929. If parity with gold were restored, the price level would fall still further—namely, by approximately 60 per cent. from 1929. This would be necessary to enable an economic adjustment to be made on the basis of the gold value of exports. A fall of 60 per cent. brings the price level down from, say, 100 to 40. Thus goods which formerly were worth £100 would then be worth £40. Hence internal interest charges would represent two and a half times as many goods and services as at the higher price level in 1929. They would, in fact, become an intolerable burden. The return to gold parity reduces the money value of the external interest payments from £9 m. to £6.75 m., as we have shown above. It does not, however, reduce the real burden of these payments, because export goods are lower in price and the same quantity at this lower price is required to pay £6.75 m. as is required to pay £9 m. at parity with sterling. The internal interest burden, however, would be greatly increased by a return to gold.

**Effects on the
Budget.**

71. With regard to the size of the national income, we have pointed out that the restoration to parity with gold would tend to lower the income to £60 m. as compared with £150 m. before the war. This would result from the catastrophic fall in gold

**National Income at
Parity with Gold.**

*This is the approximate figure, including the interest and sinking fund on the funded debt to Great Britain, payments of which are now suspended under the Hoover moratorium, representing a net saving of £1.3 m. a year.